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Success and Failure Factors of the Mergers and Acquisitions Performance: Evidence from Bulgaria

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Abstract:
This paper presents a study on the success and failure factors that influence the mergers and acquisitions (M&A) performance. In the initial part major theoretical studies, developed in the field of strategic management, corporate finance, organisational studies, and human resources are analysed. These works are used to outline ten main elements that can be considered essential for the success of the transactions. The discussed examines are founded on a number of leading theories – Agency theory, Resourced-based theory, Diversification theory, Learning theory, etc. Therefore, the empirical application of these theories is tested in the local context of the Bulgarian M&A deals. By the means of factor and regression analysis, three specific factors of successful M&A performance are empirically drawn. The conclusions are that leadership qualities of the managers, synergy of resources, and fast post-merger integration appear to be crucial for the successful performance of these strategic combinations.

Key Words:
Mergers and acquisitions, performance, leadership synergy, post-merger integration

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1. Introduction

Last decades were characterized with several M&A waves that have transformed industries on the global scene and have affected the career of millions of employees, especially in cross-border transactions. However, when trying to assess their performance, it turns out that many of them did not succeed to attain their initial goals. These strategic operations have completely obvious motivations but their efficiency is quite insecure. This clear disparity between the popularity of M&As and their actual results is an interesting field to be investigated. Consequently, the objective of this paper is to research the factors that lead to a successful outcome of these deals. Certainly, due to their utmost importance for the global economy, there have been significant discussions in the sphere of management, and some important considerations have been reached on the issue of how and over what period of time to measure M&A success. Researchers in strategy (Lubatkin, 1983; Cannella and Hambrick, 1993; Lieberman and Montgomery, 1988; Hayward, 2002) have tried to describe and to explain the main characteristics of this phenomenon. Despite their scientific efforts, acquisitions continued to appear as strategic maneuvers that in their essence are much more complex than initially regarded and new determinants of performance emerged over the years.

According to the most recent works in the strategic management sphere, the reasons for the poor performance can be found in the management's approach. It means that when trying to pull off a successful deal, many senior executives focus their attention on the financial aspects of a merger and fail to consider their psychological implications (Bouchikhi and Kimberly, 2012). For example, an acquiring company can make a wrong judgment when evaluating the Target Company and as a consequence too high premium price can be paid, or the post-merger integration process can be managed poorly. These factors appeared to be very useful if taken into consideration when making an attempt to explain why the M&As do not create enough value in terms of synergy and do not contribute to the increase in revenues of the acquiring companies.

First, in order to challenge these issues, in this article is established a theoretical analysis of the main factors discussed in the academic reviews on the subject of M&A performance. Through this approach the main elements of success are identified. Their individual aspects are supported by theories in management and in the regulation framework (Thalassinos, Liapis and Thalassinos, 2011) whose hypotheses are empirically tested by the authors in the publications.

Second, the practical application of all these theoretical factors is measured in the context of the Bulgarian M&A deals. Through the means of factor and regression analysis the factors with most significant influence on the efficiency are extracted.

Some of the theoretical factors find strong support in this research, while others are completely neglected.

Last, the results of this study are reasoned in the institutional context of the country and its economic specificities. Reached conclusions on the M&A efficiency in Bulgaria can be interpreted and explained only partially by the theoretical concepts. Other elements rooted in the psychological and identity issues have their subtle impact as well.

2. Literature review

It is obvious that in their analyses some researchers in the sphere of M&As have focused narrowly in their works on the financial and strategic variables as predictors of M&A performance, while others affirm that there is no clear relationship between these aspects. For the last ones, the human capital and the cultural fit are the predominant elements in the post-merger integration phase. For example, the most recent studies in this field deem organizational and cultural integration as critical success factors, and these studies are further complemented with very detailed models that explain the impact of managerial decisions and actions on the success of M&As. From here, different measurement techniques were employed and different results were obtained.

Historically, among the first profound works on this subject in the strategic management literature is the study of Lubatkin (1983). The author's basic theoretical idea is that the mergers often constitute an act of diversification. This framework necessitates a strategic adjustment between the acquiring and the target company. This suggestion is based on the concept of synergy. Related to the strategic adjustment, synergy takes place when two separate entities can be managed more efficiently together than separately. This way they take advantage of lower costs or better allocation of scarce resources in the present environmental constraints. The main statement of Lubatkin (1983) is that the acquiring companies can benefit from M&As through technological and financial synergies, as well as from diversification.

Further, performance factors in horizontal mergers were described also by Ramaswamy (1997). In his study the author examines the influence of the strategic similarity between the acquiring and the target company on the post-merger performance. He suggests that mergers between entities with similar strategic characteristics reach higher performance indicators than mergers between entities lacking strategic similarity. Kroll and Wright (1997) investigate the forms of control as a critical determinant of acquisition performance and CEO rewards. The authors argue that in the companies managed by external managers the M&As can be undertaken against the shareholders' interest because the remuneration of the executives is based on non-performance criteria. However, the remuneration of the managers in the companies that are managed by their owners is based on both− performance and non-performance criteria. The intrinsic idea of this research is that in the companies managed by their owners the stockholders can benefit from the M&As.

In this paper the authors analyze in the perspective of the Agent theory to what extent the M&As are launched in the interest of the executives rather than in the interest of the stockholders. The authors prove empirically the hubris hypothesis according to which even if the executives acquire target companies that they assume that can be managed more efficiently by them, these M&As do not bring higher profitability (Hayward and Hambrick, 1997; Roll, 1986; Thalassinos and Kiriazidis, 2003). The results of the study are also in accordance with the Portfolio theory that stipulates that the executives' goals are to diversify their personal welfare. Seth, Song and Pettit's (2002) findings are concordant with the conclusions of Kroll and Wright (1997), i.e. that the executives make wrong judgments when making a decision for an M&A transaction, motivated by non-performance criteria.

The most recent studies in this sphere pay attention to the leadership style of the top managers involved in the M&A deal. Waldman and Javidan (2009) affirm that post-M&A performance is strongly affected by the leadership factor. In their model they make a distinction between the personalized charismas of the executives that results in an absorption strategy and socializes charisma of the executives that leads to collaborative vision-formation. The authors stipulate that the second type of leadership is more successful in the M&As.

Cannella and Hambrick (1993) and later Very, Lubatkin, Calori and Veiga (1997) base their researches on the theory of relative standing in the context of M&As. This theory affirms that the own perception of the individual's status in the social framework emerges from its comparison to the others in the same social framework. The authors make similar statements – i.e. that the preservation of the managers from the acquired firms is indispensable for the smooth integration processes in the newly-formed entity. Also, they affirm that what happens to these managers after the deal affects the overall results in the organization.

In recent years the studies on the relationship between M&A performance and human resource practices continue to be a subject of thorough investigation. Weber and Tarba (2010) affirm that post-M&A integration can be improved through enhanced HR practices like training, communication and autonomy. The authors distinguish their model from the resourced-based view that has generally accepted that in order to produce a sustainable competitive advantage the acquirers must transfer from the acquired firm assets and people with different and better skills and knowledge than it and its competitors possess. On the contrary, Weber and Tarba

(2010) propose a knowledge-based view which emphasizes the necessity to develop and integrate knowledge. They are convinced that by exploiting synergies through resource sharing is the winning strategy.

One of the most popular factors in the M&A theory is the cultural differences between the participants. In accordance with the hypothesis of cultural differences, that in its most general form suggests that the difficulties, the costs, and the risks associated with the cross-cultural contact increase with the increase of the cultural differences between two individual, groups or organizations. Hofstede (1980), Stahl and Voigt (2004) develop this idea in terms of M&A integration. They prove that the culture of the merging companies should be compatible in order to be successfully integrated. Respectively, the negative side of the cultural diversity is emphasized. Child, Faulkner and Pitkethly (2002) develop the same idea in their study on the relationship between the level of integration and the degree of strategic and operational control in cross-border M&As. Their basic point is that to enhance the M&A performance, the acquiring companies should adopt an adaptive approach to their different international target companies. The influence of the previous experience on the M&A performance has been widely discussed but the results are still controversial. While Haleblian and Finkelstein's (1999) basic idea is that previous experience and M&A performance are related in a U-curve, i.e. the more the new target companies are similar to the previously acquired ones, the better the outcome of the transaction is, Hayward (2002) reaches opposing results. For him, previous experience is necessary but not sufficient condition to be assured the learning knowledge for the acquirer.

For Carow, Heron and Saxton (2004) companies that react earlier in the M&A wave have an advantage to their competitors because they can benefit from information asymmetry. In authors' opinion, only the early participants' actions allow to buy at a lower price an underestimated company, and to create a unique combination of inimitable synergies. The decision on the mode of financing an M&A deal is a consequence of several considerations among which experience and the level of expertise. Hayward (2003) argues that there is a direct influence of the investment banks on the M&A decisions – starting from the selection of target companies to the method of payment of the transaction. The author suggests that the less the acquiring companies turn to banks' expertise, and the less these companies finance their deals by stocks, the better their M&A performance will be. André, Kooli and L'Her (2004) empirically prove in their study that, in general, the M&A deals financed by stocks have a weaker performance in the long-run.

Capron and Pistre (2002) investigate the relationship between the acquirer's revenues, the resources of the target company, and the synergy. In other words, the researchers suggest that value realized by the acquirer results either from the target's resources, either from the acquirer's resources, or both. Seth, Song and Pettit (2002) develop the same idea – that the M&As could be successful only when here is a sharing of the resources among the two participants.

Homburg and Bucerius (2005, 2006) also investigate in their works the sources of synergy between the merging companies. They extend their studies on the post-M&A integration. The authors approach the integration process from the marketing perspective. The results of their analysis indicate that the marketing integration has a huge influence on the post-M&A performance, much more significant that the economies of scale on the industrial side. These results are concordant with the arguments, according to which there is a considerable risk of losing customers following an M&A transaction. Uhlenbruck and De Castro (2000) study the relationship between the privatization as an M&A transaction and the performance of the acquiring and the acquired company. In this respect, the authors suggest that the strategic adjustment between the participating companies is important because the adjustment between the industrial know-how of the investors and the acquired companies' resources is a critical element of success.

3. Empirical analysis

3.1. Data and model

The main task of this paper is to verify how and to what extent the discussed theories on the M&A performance apply in such type of deals in Bulgaria. For this purpose, analogically to the theoretically deduced factors of success, a questionnaire was established. It is composed of 26 questions that evaluate the performance of the M&A transactions that took place on the territory of the country during the period 1990-2010. The answers to these questions are given on a 5-point Likert scale, according to the 5-scale degree of relatedness (from strongly agree to strongly disagree) to each statement in the questionnaire following the work by Zampeta (2012). One hundred and three filled-in questionnaires were collected from the interviews with middle and top managers in Bulgarian companies that participated in such business combinations during the past 20 years. Further, the data from these interviews were analyzed through the means of SPSS, as two methods were consecutively applied – factor and regression analysis. In the analysis each question was considered a separate variable that is in a direct relationship with the performance of the respective transaction.

3.2. Factor analysis methodology

In the first stage this empirical model was analyzed through the factor analysis. The goal of this multivariate statistical method is to reduce the number of the initial variables, while the greatest possible share of the common dispersion of the data is preserved. The meaning of this approach is to obtain results that have a relatively clear practical interpretation. This step will facilitate the final determination of the performance factors.

After gradually eliminating the redundant variables that have very weak correlation coefficients and, meanwhile do not contribute to the logical interpretation of the results, a final and adequate sampling (Table 1) of 9 variables out of the initial 26 is reached. These 9 final variables form 3 groups of elements that are related to the successful M&A performance. The results with the correlation coefficients of the variables are demonstrated in a component matrix (Table 2).

Table 1: Coefficients of sampling adequacy of the 9 final variables

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.756
Bartlett's Test of Sphericity	Approx. Chi-Square	432.144
	Degree of freedom	36
	Sig.	.000

The sampling adequacy in the factor analysis is measured through Bartlett's Test of Sphericity and Kaiser-Meyer-Olkin (KMO) coefficient. In this model KMO coefficient is 0.756 that is an appropriate value that falls within the generally accepted levels, and gives reason to consider the sampling model as an adequate one. In the same time, the significance of the Bartlett's test is under the critical level of 0.05 what demonstrates that the null hypothesis for lack of correlation of the variables should be eliminated.

Table 2: Rotated component matrix of the 9 final variables

Variables	**Factors**		
	1	2	3
v2 market share increase	.889	.172	.078
v7 same industry	.892	.097	.186
v17 previous M&A experience	.825	.110	.119
v9 employees resistance	-.020	.149	.911
v10 IT integration	.313	.084	.797
v12 strategic adjustment	.203	.707	.446
v14 brand name recognition	.229	.719	.211
v15 new products development	-.039	.879	-.105
v11 common corporate culture	.333	.619	.554

3.3. Final results of the factor analysis

From the interpretation of this matrix 3 common factors of successful performance of the Bulgarian M&A deals are identified. They comprise variables combined according to the values of their coefficients in the following pattern:

Factor I – Industry relatedness consists of the following 3 variables:

- the goal of the M&A was to eliminate competitor and to increase market share (variable 2);
- the deal was between companies operating in the same industry (variable 7);
- the acquiring company had an extensive previous experience in M&As in the same industry (variable 17).

Factor II – Common marketing strategy and corporate vision, combine the following 4 variables:

- creating a common corporate culture among the merging companies (variable 11);
- strategic adjustment (variable 12);
- imposing brand name recognition on the market (variable 14);
- development of new products (variable 15).

Factor III – Integration processes is entirely related to the internal organizational activity of the merging entities and combine 2 variables:

- employees' resistance (variable 9);
- IT integration (variable 10).

3.4. Regression analysis methodology

The second multivariate statistical method applied to analyse the data from our survey is the multiple regression. Contrary to the factor analysis, the multiple regression examines the relationship between one dependent variable and several independent ones, called also predictors. In our case the dependent variable is the success of the M&A deal and the independent ones are the same 25 variables derived from the questionnaire, used in the factor analysis.

The final results are reached by gradually eliminating these independent variables which regression coefficients in the regression matrix are not statistically significant, i.e. they have significance level above 0.05. Six independent variables remained in the final model. Also, in the process of the analysis the principal requirements of the classical regression theory regarding the ordinary least squares method (OLS) have been satisfied. As a generalized measure of the strength of the correlation between the dependent variable and the independent ones is used the coefficient of determination R^2 and its adjusted value. It is presumed that it should be above 0,500 in order to consider the results of the analysis acceptable. As it can be observed in the final model evaluation (Table 3), these coefficients exceed this acceptable level. The adjusted coefficient of determination can be interpreted with the following meaning: with this model can be explained above 65% of the variation of the successful M&A deals on the territory of the country.

Table 3: Results of the model evaluation between the dependent and 6 independent variables

Model	Multiple correlation coefficient R	Coefficient of determination R^2	Adjusted coefficient of determination	Standard error of the model
1	.821	.674	.654	.700

3.5. *Final results of the regression analysis*

The results of the final regression matrix (Table 4) show that the remained 6 variables in the model are statistically significant, i.e. they form six individual factors of success in the M&A deals. Based on the values of their Beta coefficients, the influence of each factor on the efficiency of the deal can be determined.

Table 4: Final regression model with 6 independent variables

Independent variables	Coefficients		
	Beta	t	Sig.
v6 good financial condition	.389	5.860	.000
v11 common corporate culture	.217	3.407	.001
v21 high level of control	.136	2.216	.029
v24 transfer of resources to the acquirer	-.201	-2.969	.004
v25 marketing strategy	.139	2.242	.027
v26 cost cutting	-.326	-4.516	.000

Dependent variable: the deal was very successful

These factors are:

- good financial condition of the acquired company (variable 6);
- creating a common corporate culture among the merging companies (variable 11);
- high level of control by the acquiring company (variable 21);
- transfer of resources (technology, know-how, manpower) to the acquiring company (variable 24);
- development of the marketing strategy and client relationship services (variable 25);
- development of cost-cutting strategy (variable 26).
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3.6. *Implications of the factor and regression analysis*

The results from the factor and regression analysis on the M&A transactions in Bulgaria find support in the literature reviews on this subject. The findings are in accordance with the Theory of diversification of Lubatkin (1993), Hayward's (2003) views on the accumulated experience in related industries, Homburg and Burcerius' (2005) conclusions on synergy through marketing integration, and Weber's (2010) affirmations on the relationship between M&A performance and management's focus on human capital of the merging companies. Particularly, when analyzing the values of the final coefficients in the matrices of the remained variables becomes obvious that the factor that has most significant influence on the efficiency of the deals is the good financial condition of the acquired company before the transaction. Its interpretation is that well-managed companies before the deal have biggest chance to keep their good performance after the integration of the entities.

Synergy is a leading factor in this research. The negative values of the beta coefficients of two variables in the regression matrix – transfer of resources to the acquiring company and cost-cutting strategies of the acquirer have detrimental effect on the integration. In fact, as expected, synergy between the merging companies is reached when the efforts of the executives are concentrated on the marketing strategy. Traditionally, executives tend to pay the most attention to the financial architecture of the deal, but the new perspective on M&As suggests that economic and psychological synergies should be priority (Bouchikhi and Kimberly, 2012). Variables that measure the control mechanisms (Child, Faulkner and Pitkethly, 2002) and the cultural differences of the merging companies (Stahl and Voigt, 2004) are eliminated from the model due to their weak correlation coefficients. This implies that our study lacks the specificity of the institutional context for the country due to the fact that the acquirers in the investigated deals are big international companies. Consequently, their global vision of management has been adopted.

4. Conclusion

This paper studies the success factors of the M&As in the context of the Bulgarian economy. In the initial part, the literature review is dedicated to the works on the performance of M&As. Ten main elements of efficiency are identified in this theoretical synthesis. In the second part, the empirical application of these elements is tested for the Bulgarian M&A deals that took place in the last 20 years. Final results from the survey are processed through the means of factor and regression analysis in order to obtain the main factors of success and failure for these strategic combinations.

The conclusions are that leadership qualities of the managers, synergy of resources, and fast post-merger integration appear to be crucial for the successful performance. Also, they support the necessity of similarity between the merging entities, being an important element for positive outcome of the transaction.

Some limitations of this study imply the possibility for further and more profound analysis of the results in the empirical part. For example, its sample comprises 103 cases of M&As in Bulgaria that is a relatively small size and can be increased. Also, opinions of top and middle managers were taken into consideration being subjective elements for evaluation the efficiency of the deals.

However, this paper proposes ideas for future research of the M&A deals in Bulgaria. It gives a perspective on the performance factors that can be further adapted and developed in relation to the processes of privatization or the post-merger integration. Specifically, a separate examine can be developed on the subject of M&As in the banking sector in Bulgaria, that have a big influence on the economic climate of the country. Also, the extracted factors can be tested and applied in a broader aspect to the Eastern European M&As that took place during the same 20-years period.

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